

ROMAN

CORPORATION



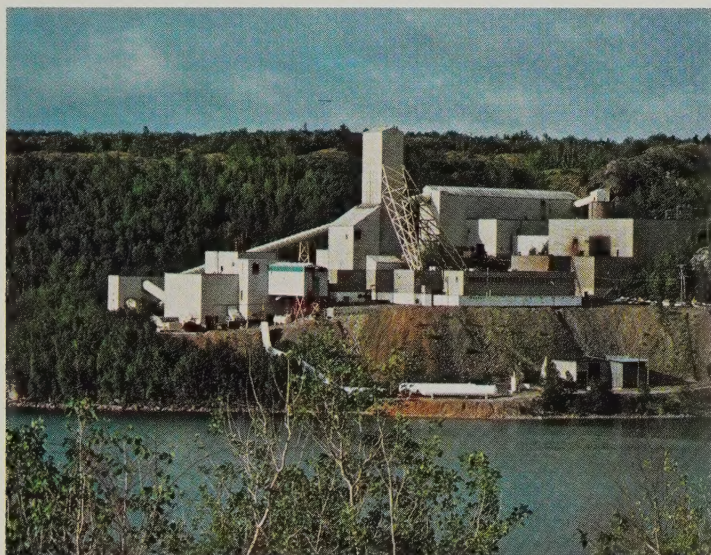
Annual Report 1978



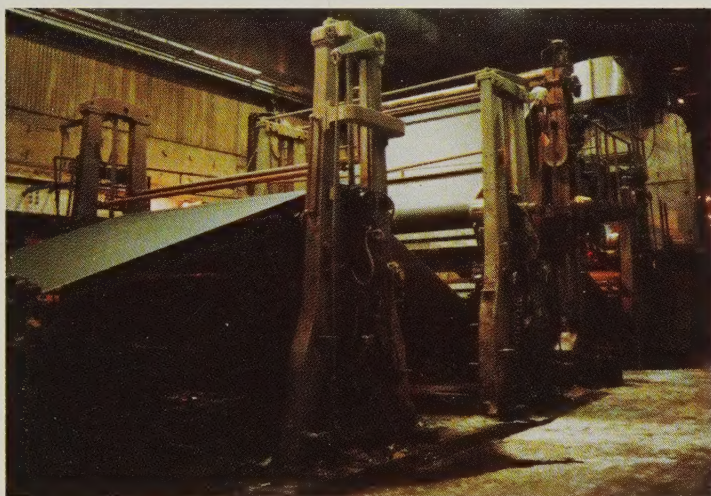
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Highlights

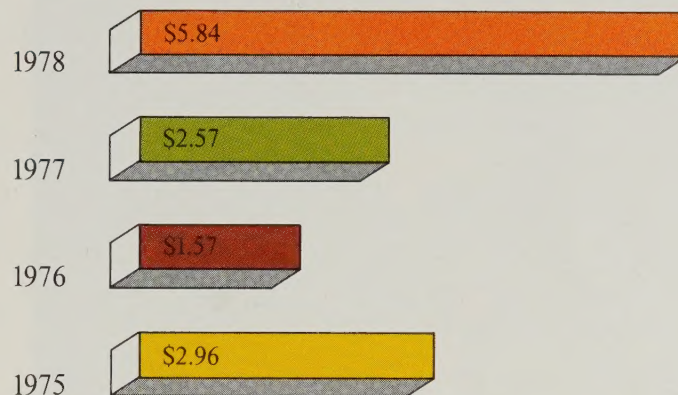


The cornerstone of Roman Corporation's investment holding — Denison Mines, Elliot Lake, Ontario

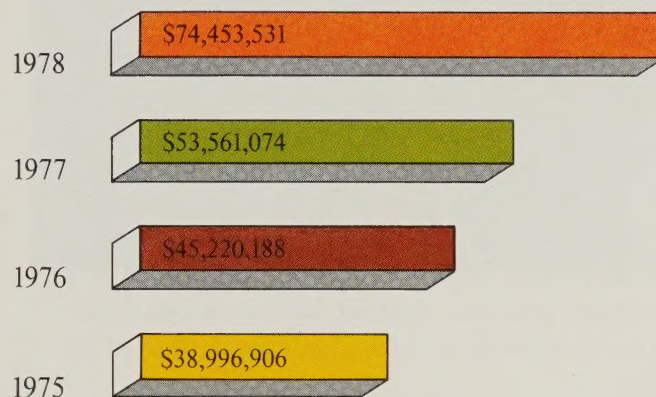


Roman Corporation's operating division — Strathcona Paper, Napanee, Ontario.

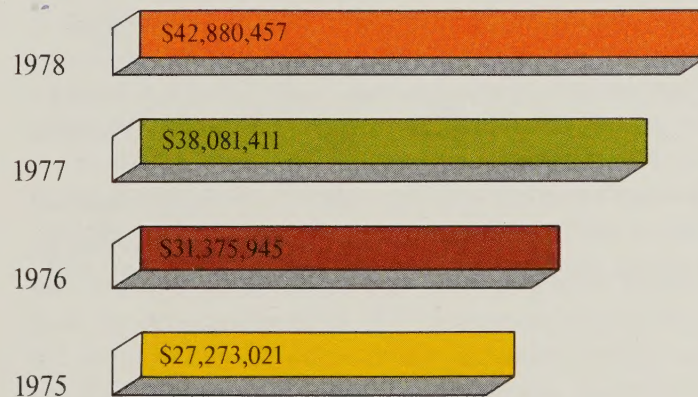
Earnings per share



Total Assets



Shareholders Equity



Report to Shareholders

The year 1978 was a period of notable development for Roman Corporation Limited.

- Earnings more than doubled from \$6,705,466 (\$2.57 per share) in 1977 to \$15,251,046 (\$5.84 per share).
- New investments for the year exceeded \$10,000,000 for the first time.
- Corporate debt was restructured with the issuance of a \$30,000,000 four-year Income Debenture which reduced our borrowing costs by about 50% and substantially improved our working capital position.
- Shareholders were paid \$4.00 per share out of 1971 capital surplus on hand.

DENISON MINES constitutes your company's major holding. At year end Roman Corporation owned 1,500,000 shares, or 32.8% of Denison's total stock issue. This share holding became 6,000,000 as a result of Denison's four for one stock split in February 1979. The decision to increase the level of investment in Denison reflects management's conviction that the energy resource sector will continue to strengthen in the medium and longer term, and that Denison as a pre-eminent operator will take full advantage of the situation as it develops throughout the decade of the eighties.

Denison's net earnings for the year rose from \$27,878,000 (\$6.10 per share) in 1977 to \$58,241,136 (\$12.75 per share). Increased shipments of uranium and higher oil and gas earnings contributed substantially to this increase. Other factors were the profit improvement of its subsidiary, Lake Ontario Cement, the gain on the sale of an interest in a mineral venture and higher investment income. The main thrusts of Denison's current activities relate to mine expansion at Elliot Lake in connection with the multi-billion dollar uranium supply contract with Ontario Hydro; oil and



STEPHEN B. ROMAN

gas developments in Greece and Spain following authorizations by those governments and the development of its major coal properties in British Columbia and Alberta.

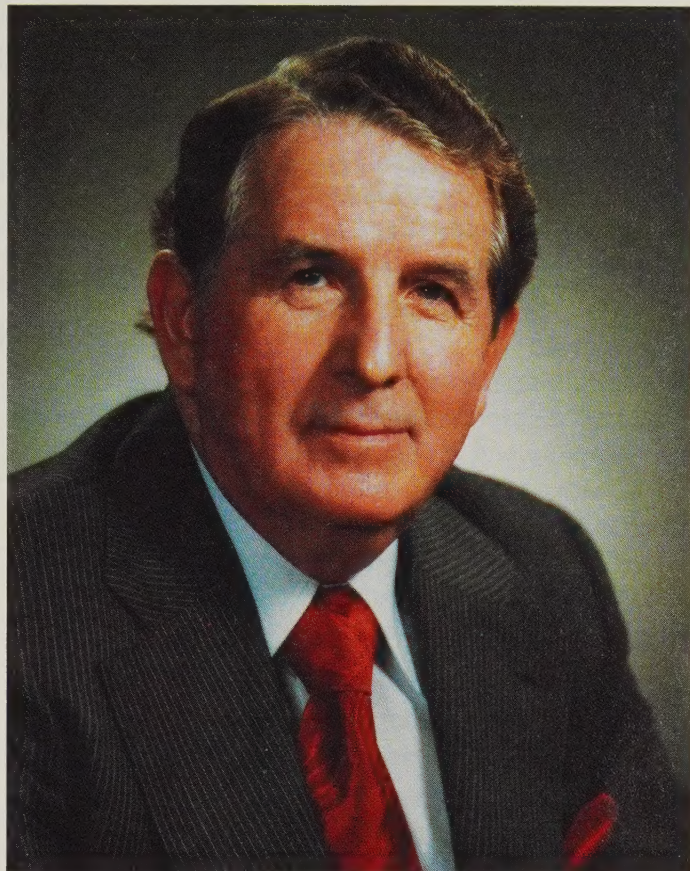
SEAGULL

There has been some advancement beyond the preliminary steps outlined in our 1977 Annual Report to arrange for participation by your company in the oil and gas sector through progressive investment in Seagull Petroleum Limited (Bahamas). Seismic and drilling programmes are underway or planned for 1979 in respect of a number of properties held by Seagull. In addition, Seagull in partnership with Denison Mines is currently in negotiations with the government of Guyana regarding a major offshore concession.

Specifically, confirmation drilling will be undertaken in the second quarter of 1979 on two properties in the United States where Seagull has a working interest. These are the Mitchell Creek, Paluxy oil discovery in Franklin County, Northeast Texas and acreage adjacent to the Long Branch, Travis Peak gas discovery in Panola County, East Texas. Exploratory drilling is scheduled throughout the year in Seagull's holdings in the United States (Nolan and Fisher counties); and in Italy (Monte Strombone region) with AGIP, the Italian state oil company. In addition, seismic operations are underway in Sicily — *on shore* — in participation with the French oil company, COPAREX, and in Sicily — *off shore* — jointly with Italy's Montedison Oil Company and the Canadian company, Canada Northwest Lands.

BLYTHWOOD

In August 1978 Roman Corporation entered into an agreement with Blythwood Mining Limited, Toronto, on a three-phased exploratory programme with a total cost of \$800,000 related to a cobalt/gold/silver prospect in the state of Sonora, Mexico. The first phase of the programme constituting a \$100,000 drilling operation has recently been completed and results are being evaluated. Subject to these being satisfactory we will



VINCENT L. CHAPIN

exercise our options on Phase II of the programme at a cost of \$300,000. In the event that we undertake the entire programme, we will have acquired 2,500,000 treasury shares of Blythwood. We also have an option to acquire up to a further 653,132 shares from existing shareholders. All such shares taken together would result in your company controlling 60% of Blythwood's issued capital.

OPERATIONS

Strathcona Paper Company:

Strathcona's profit for the year was marginally lower than the level achieved in 1977. However, considering the sharp rise in the prices of raw materials, energy and supplies, the division enjoyed a reasonably good year.

Report to Shareholders continued:

In order to enable Strathcona to participate in the clay-coated boxboard market, a decision was taken, late in the year, to add a clay-coater to existing facilities. This capital expansion now underway and to be completed by the end of 1979 will not exceed \$2 million, including design, engineering, equipment, installation, start-up and product introduction costs. Coated material represents 24% of the Canadian boxboard market.

FINANCIAL

In addition to information already presented, other material transactions occurred affecting the affairs of the company and the shareholders. Concurrent with the issuance of the \$30 million Income Debenture, \$19,394,000 of demand loans were repaid. Restructuring the company's debt was primarily required to reduce net borrowing costs.

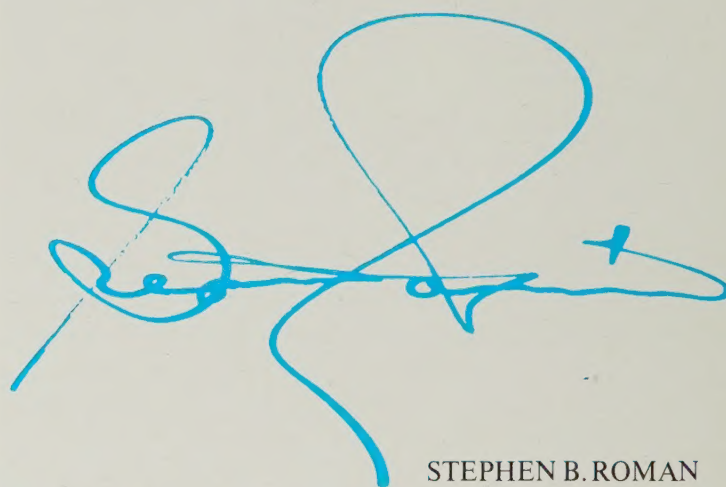
During 1978, shareholders were paid a dividend of \$10,452,000 (or \$4.00 per share) out of 1971 capital surplus on hand. In the hands of Canadian residents this dividend is tax-deferred and not for inclusion for tax purposes.

Excess funds on hand at year-end for meeting outstanding commitments and for furthering management's objectives were approximately \$4.3 million.

OUTLOOK

Working within the limits of our dividend income, estimated to be in excess of \$6 million for 1979, and taking account of the financial strength of the company related to our underlying assets, we are in the position to exploit fully our current ventures, and vigorously to pursue the search for appropriate new acquisitions. In this connection we will be guided mainly by quality of asset and prospective return. Nonetheless our preferences and efforts in the coming year will continue to centre in the resource sector.

On behalf of the Board of Directors.



STEPHEN B. ROMAN
Chairman of the Board



VINCENT L. CHAPIN
President

Toronto, Ontario
March 23, 1979

Officers

Stephen B. Roman, LL.D.
Chairman of the Board

Vincent L. Chapin
President

Helen Roman-Barber
Vice-President

John S. Grant, Q.C.
Secretary

Frederick G. Roman
Treasurer

Directors



Vincent L. Chapin

John H. Coleman

John S. Grant

George B. Heenan

John Kostuik

Charles D. Parmelee

Joseph A. Patrick

W. Earl Riddolls

Helen Roman-Barber

Stephen B. Roman

Russell A. Rule

HEAD OFFICE

Suite 3900, South Tower,
Royal Bank Plaza
P.O. Box 40
Toronto, Ontario
M5J 2K2

AUDITORS

Coopers & Lybrand
Toronto, Ontario

BANKERS

The Royal Bank of Canada
Toronto, Ontario

REGISTRAR & TRANSFER AGENT

Guaranty Trust Company of Canada
Toronto, Ontario

DIVISION OFFICE AND MILL

Strathcona Paper Company
Box 130
Napane, Ontario

President

W. Earl Riddolls

Vice-Presidents:

Industrial Relations
& Paper Technology

Engineering

Administration & Sales

Personnel Scheduling

Safety & Special Assignments

Business Development
& Operations

Lloyd G. Finlay

Warren W. Finlay

William J. Finlay

Hugh C. Finlay

Ronald G. MacNeill

Comptroller

James M. Loudon

Consolidated Balance Sheet

as at December 31, 1978

ASSETS

CURRENT ASSETS

	1978 \$	1977 \$
Cash and short-term deposits	4,550,201	—
Marketable securities	140,612	75,462
Accounts receivable	1,634,885	685,451
Inventories	763,590	703,284
Prepaid expenses	25,362	19,700

LONG-TERM INVESTMENTS (note 2)

7,114,650	1,483,897
<u>61,607,035</u>	<u>46,141,643</u>

FIXED ASSETS

Land — at cost	201,984	201,984
Plant, buildings and equipment — at cost, less accumulated depreciation of \$1,886,407 (1977 — \$1,441,826)	5,273,056	5,495,772
	<u>5,475,040</u>	<u>5,697,756</u>

OTHER ASSETS

256,806	237,778
<u>74,453,531</u>	<u>53,561,074</u>

Auditors Report to the Shareholders

We have examined the consolidated balance sheet of Roman Corporation Limited as at December 31, 1978 and the consolidated statements of earnings and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1978 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

COOPERS & LYBRAND
Chartered Accountants



LIABILITIES

CURRENT LIABILITIES

	1978	1977
	\$	\$
Bank overdraft	—	44,116
Bank demand loans	—	14,583,800
Accounts payable and accrued liabilities	1,085,434	851,747
Dividends payable	487,640	—
	<u>1,573,074</u>	<u>15,479,663</u>
INCOME DEBENTURE (note 3)	<u>30,000,000</u>	<u>—</u>
	<u>31,573,074</u>	<u>15,479,663</u>

SHAREHOLDERS' EQUITY

CAPITAL STOCK

Authorized — 5,000,000 shares without par value		
Issued and fully paid — 2,613,000 shares	3,806,777	3,806,777

CONTRIBUTED SURPLUS

280,598	280,598
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RETAINED EARNINGS

38,793,082	33,994,036
<u>42,880,457</u>	<u>38,081,411</u>
<u>74,453,531</u>	<u>53,561,074</u>

SIGNED ON BEHALF OF THE BOARD

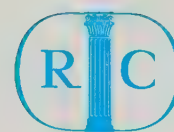
VINCENT L. CHAPIN, Director

HELEN ROMAN-BARBER, Director

Consolidated Statement of Earnings and Retained Earnings

For the Year Ended December 31, 1978

	1978 \$	1977 \$
REVENUE		
Sales	13,192,725	11,873,625
Share of income determined by the equity method	16,195,422	7,080,156
Other interest and dividends	117,490	37,024
Gain (loss) from security transactions	165,150	(47,702)
Services and rental income	62,400	117,250
	<u>29,733,187</u>	<u>19,060,353</u>
EXPENSES		
Cost of operations exclusive of the following items	10,987,265	9,345,355
Selling, general and administrative expenses	1,430,384	1,458,230
Interest (incurred on long-term debt \$241,052; 1977 — nil)	1,611,969	1,175,971
Depreciation	452,523	375,331
	<u>14,482,141</u>	<u>12,354,887</u>
NET EARNINGS FOR THE YEAR	15,251,046	6,705,466
RETAINED EARNINGS — BEGINNING OF YEAR	33,994,036	27,288,570
DIVIDENDS, paid from 1971 capital surplus on hand	(10,452,000)	—
RETAINED EARNINGS — END OF YEAR	<u>38,793,082</u>	<u>33,994,036</u>
EARNINGS PER SHARE FOR THE YEAR	<u>\$5.84</u>	<u>\$2.57</u>



Consolidated Statement of Changes in Financial Position

For the Year Ended December 31, 1978

	1978 \$	1977 \$
SOURCES OF WORKING CAPITAL		
Current operations —		
Net earnings for the year	15,251,046	6,705,466
Items not affecting working capital in the year —		
Depreciation	452,523	375,331
Share of income determined by the equity method, less dividends received	(5,396,829)	(4,151,638)
Total from current operations	10,306,740	2,929,159
Issue of income debenture	30,000,000	—
	<u>40,306,740</u>	<u>2,929,159</u>
USES OF WORKING CAPITAL		
Purchase of long-term investments	10,068,563	3,705,210
Additions to fixed assets	229,808	871,580
Other assets	19,027	9,587
Dividends	10,452,000	—
	<u>20,769,398</u>	<u>4,586,377</u>
INCREASE (DECREASE) IN WORKING CAPITAL	19,537,342	(1,657,218)
WORKING CAPITAL (DEFICIENCY) — BEGINNING OF YEAR	(13,995,766)	(12,338,548)
WORKING CAPITAL (DEFICIENCY) — END OF YEAR	<u>5,541,576</u>	<u>(13,995,766)</u>

Notes to Consolidated Financial Statements

For the Year Ended December 31, 1978

1. SUMMARY OF ACCOUNTING POLICIES

(a) Basis of consolidation

The consolidated financial statements include the accounts of the company and a wholly-owned subsidiary, Roman International Limited.

(b) Translation of foreign currencies

Foreign currencies have been translated into Canadian dollars as follows: Current assets and current liabilities at rates in effect at the end of the year; non-current assets and liabilities and revenue and expenditure items at approximate rates in effect at dates of transactions.

(c) Marketable securities

Marketable securities are carried at their quoted market value which is lower than cost.

(d) Inventories

Finished goods are valued at the lower of cost and net realizable value. Raw materials and supplies are valued at the lower of cost and replacement cost.

(e) Long-term investments

(i) The investment in shares of Denison Mines Limited and two other companies, one of which is a mining company, is accounted for by the equity method, by which the original cost of the shares is adjusted for the company's share of earnings or losses less dividends since significant influence was acquired. Portfolio investments are carried at cost. All long-term investments are written down to their estimated inherent worth when there is evidence of a permanent decline below their carrying value.

(ii) Exploration expenditures made in the year are written off to expenses.

(iii) The excess cost of the company's investment over its share in the underlying equity of the three companies referred to above at the dates of acquisition is considered to be applicable to the mining properties of these companies and is being amortized over twenty-five years. The unamortized excess at December 31, 1978 amounted to \$16,355,142. The amortization charge for the year was \$758,800 (1977 — \$633,504) and has been deducted in calculating the share of income determined by the equity method.

(f) Fixed assets

Fixed assets are recorded at cost.

Depreciation charges are calculated using the straight-line method over the estimated useful lives of the assets at the following annual rates:

Buildings and structures	4%
Plant and equipment	7%-10%
Vehicles	33⅓%



2. LONG-TERM INVESTMENTS

This item comprises:

	1978 \$	1977 \$
(a) Shares in companies accounted for by the equity method — market value \$111,053,494 (1977 — \$73,655,986)	60,145,073	44,734,814
Shares and debentures in other companies, at or below cost	1,461,962	1,406,829
	<u>61,607,035</u>	<u>46,141,643</u>
(b) Shares and debentures in other companies include shares carried at \$364,562 with a quoted market value of \$1,250,386 (1977 — \$346,229 and \$709,260 respectively).		
(c) The quoted market values referred to above do not necessarily represent the realizable value of these holdings which may be more or less than that indicated by market quotations.		
(d) Shares and debentures in other companies include a convertible debenture of \$1,060,600 (U.S. \$1,000,000), issued by Seagull Petroleum Limited pursuant to an agreement described in note 4(a).		

3. INCOME DEBENTURE

Under an agreement dated November 15, 1978 the company issued an income debenture in the amount of \$30,000,000, with interest at fifty-two percent of the aggregate of prime plus one-half of one percent. The amount is to be repaid by payments of \$7,500,000 on October 31, 1981 and \$22,500,000 on October 31, 1982. The company may, provided it can meet certain requirements, prepay all or any part of the principal amount, subject to a minimum of \$500,000 for any prepayment. Under the agreement the company will not, without prior approval of the bank, pledge any of its assets, incur debt exceeding \$1,000,000, except subordinated debt, dispose of any assets with a value in excess of \$1,000,000 or allow the ratio of its total debt to shareholders' equity to be more than three-quarters to one. In addition, profits shall be at two times the amount sufficient to pay all interest on this and any other income debentures. The company can be released from the aforementioned restrictions by a pledge to the bank of some of its shares of Denison Mines Limited.

4. COMMITMENTS

- (a) Under an agreement dated June 17, 1977 the company purchased for U.S. \$1,000,000 (see note 2(d)) a convertible debenture in Seagull Petroleum Limited ("Seagull"). Under the agreement the company has the option to invest up to an additional U.S. \$4,000,000, which it may exercise by investing either U.S. \$1,000,000 on or before January 15 in each of the years 1979 to 1982 or the
-

balance of the U.S. \$4,000,000 at any time prior to January 16, 1982. In the event the company does not invest the full U.S. \$1,000,000 in any year, the option will terminate. The option may be exercised by the purchase of additional debentures, by the purchase of shares of Seagull at U.S. \$4.55 per share or by the acquisition of a direct property interest in Seagull's properties.

The convertible debentures will mature on July 15, 1987 and are convertible into shares of Seagull at U.S. \$4.55 per share or into a direct interest in Seagull's properties. The convertible debentures do not bear interest until July 8, 1982 and may be redeemed at any time after that date.

Subsequent to December 31, 1978, the company exercised its option by investing a further U.S. \$1,000,000.

- (b) Under an agreement entered into in 1977 the company, acting on behalf of itself and two other equal joint venturers, purchased 500,000 common shares of Caspian Resources Ltd. (formerly Vantreal Resources Ltd.) for \$250,000. Under the agreement the company has an option to acquire all or any part of a further 1,000,000 common shares of that company at a price of \$1 per share exercisable any time prior to April 1, 1979 and all or any part of a further 500,000 common shares at a price of \$2 per share exercisable at any time prior to January 1, 1980.
- (c) In August, 1978 the company entered into an agreement whereby it can subscribe for up to 2,500,000 treasury shares of Blythwood Mining Limited ("Blythwood") for \$800,000. Under the agreement the company has subscribed for 500,000 shares for \$100,000 payable on or before March 1, 1979, and can subscribe for a further 1,000,000 shares for \$300,000 prior to April 1, 1979, payable on or before March 1, 1980, and a further 1,000,000 shares for \$400,000 prior to April 1, 1981, payable on or before March 1, 1982. In addition, the company has the option to purchase all or any of 653,132 of the issued shares of Blythwood at a price of \$1 per share on or before August 16, 1980.
- (d) In addition to items referred to in (a), (b) and (c) above, capital expenditures authorized as of December 31, 1978 amount to approximately \$2,000,000.

5. INCOME TAXES

The company has losses available for tax purposes of \$80,000 expiring in 1979 and \$83,000 expiring in 1983 together with timing differences of \$770,000 relating to fixed assets and \$410,000 relating to foreign exploration and development expenditures. The total of these amounts can be carried forward and used to reduce future taxable income.

6. STATUTORY INFORMATION

Directors and senior officers, as defined in The Business Corporations Act of Ontario, received direct remuneration in 1978 of \$252,750 (1977 — \$251,150).

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INTERIM REPORT

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**ROMAN CORPORATION
LIMITED**

SIX MONTHS ENDED JUNE 30, 1978

ROMAN CORPORATION LIMITED

P.O. Box 40, Royal Bank Plaza
Toronto, Ontario

To Our Shareholders:

Consolidated net earnings for the six months ended June 30, 1978 rose to a record of \$6,964,000 or \$2.66 per share, compared with \$3,702,000 or \$1.42 per share in 1977. This represents an 87% increase in net earnings and is attributable to the excellent results of Denison Mines Limited. Denison's consolidated earnings for the first half of 1978 were \$26,034,000 or about double the earnings of \$13,250,000 for the first half of 1977.

INVESTMENTS:

Denison Mines Ltd.:— During the period your Company acquired an additional 49,800 shares of Denison and at June 30, 1978 held 1,412,699 shares or 30.9% of the total issue. The soundness of this investment is reflected not only by Denison's long-term forward sales contracts for 199,000,000 lbs. of U_3O_8 (of which 126,000,000 lbs. is to Ontario Hydro), but also by its substantial holdings of oil and gas and coal resources. Each of these sectors made an important contribution to the history-making first half earnings and included the sale to Gulf Oil Canada of an interest in Denison's Belcourt coal property in British Columbia, increased uranium deliveries to Japan and, higher net revenues from oil and gas.

Caspian Resources Limited:— Your Company participated in a private placement of 500,000 common shares of Caspian in conjunction with two other equal equity partners, each holding a $\frac{1}{3}$ interest. Proceeds of this placement totalling \$250,000 are now being utilized to explore molybdenum property in the Setting Net Lake area, District of Kenora.

Seagull Petroleum Limited:— Your Company's investment of US\$1,000,000 has enabled Seagull to participate in several exploration programs meeting management's criteria of risk versus potential. Of five exploratory tests completed in 1978, three projects (Monte Strombone, Southern Italy, Benevides-Cerna No. 1, Southwest Texas and A.B. Clark No. 1, East Texas) are indicative of hydrocarbon production. Further engineering studies and tests are continuing on these projects.

Seagull's efforts, in the coming year will center on developing and drilling oil and gas prospects in the Western Hemisphere (principally, the United States) and on promoting and acquiring additional permits and concessions from foreign governments in the Eastern Hemisphere (principally Europe and Africa).

OPERATIONS

Strathcona Paper Company operated on about the same level of activity as in the corresponding period of last year. Although dollar sales improved by some \$309,000, earnings of this division were lower related to escalating costs of energy, raw materials and labour costs. Due to the unfavourable economic conditions in the packaging industry, consumer demand for our product is not expected to change materially in the last half of this year.

NEW DEVELOPMENTS

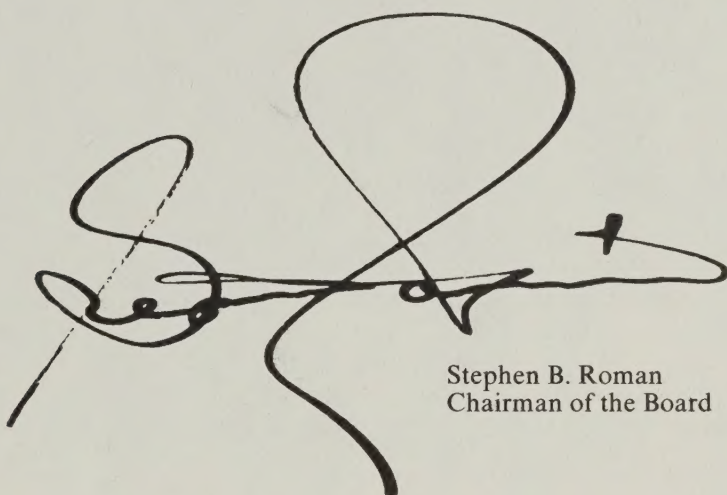
On August 16, 1978, your Company entered into an agreement with Blythwood Mines Limited, Toronto, Ontario, which provides for the issuance to Roman Corporation of up to 2,500,000 treasury shares of Blythwood for \$800,000. Funds paid

by Roman will be used to explore cobalt, gold and silver prospects in Mexico held by Blythwood's associated company in the State of Sonora, Mexico. The initial commitment by your Company is to spend \$100,000 primarily on diamond drilling, with the balance of expenditures to be made at our option over a period of approximately four years.

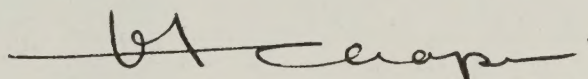
IN MEMORIAM

Shareholders, together with the directors, management and the staff of Roman Corporation take this occasion to express sentiments of deepest sorrow at the passing on June 28, 1978, of our Corporate Secretary and long-time friend and associate John C. Puhky. To Mrs. Puhky and other members of John's family we extend our sincere condolences.

On Behalf of the Board of Directors,

A large, stylized handwritten signature in black ink, featuring a prominent loop at the top and a horizontal line across the middle.

Stephen B. Roman
Chairman of the Board

A handwritten signature in black ink, appearing to read "V. L. Chapin" with a horizontal line extending to the left.

Vincent L. Chapin
President

Toronto, Ontario
August 28, 1978

ROMAN CORPORATION LIMITED

CONSOLIDATED INTERIM REPORT (UNAUDITED)

FOR THE SIX MONTHS ENDED JUNE 30, 1978

SUMMARY OF EARNINGS:	1978 \$	1977 \$
Gross Income:		
Sales	6,560,000	6,251,000
Investment and other income	7,236,000	3,559,000
	<u>13,796,000</u>	<u>9,810,000</u>
Earnings before income taxes and extraordinary item	6,964,000	3,702,000
Income taxes	—	78,000
Earnings before extraordinary item	<u>6,964,000</u>	<u>3,624,000</u>
Recovery of income taxes resulting from the carry-forward of tax losses from prior years	—	78,000
Net earnings for the period	<u>6,964,000</u>	<u>3,702,000</u>
Per Share Information:		
Earnings before extraordinary item	<u>\$2.66</u>	<u>\$1.39</u>
Net earnings for the period	\$2.66	\$1.42

STATEMENT OF CHANGES IN FINANCIAL POSITION

Source of Working Capital

Current Operations

Net earnings for the period	6,964,000	3,702,000
Items not affecting working capital in the period —		
Depreciation	222,000	194,000
Share of income determined by the equity method, less dividends received	(5,368,000)	(2,204,000)
	<u>1,818,000</u>	<u>1,692,000</u>

Use of Working Capital

Purchase of long-term investments	3,268,000	69,000
Additions to fixed assets	129,000	364,000
Other assets	7,000	49,000
	<u>3,404,000</u>	<u>482,000</u>
DECREASE (INCREASE) IN WORKING CAPITAL	<u>1,586,000</u>	<u>(1,210,000)</u>